



# Creating Value Through Intellectual Capital

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**“The new source of wealth is not material, it is information, knowledge applied to work to create value.”**

- Walter Wriston, former chairman of Citibank

# Structure Of The Presentation



Indian textile industry – some characteristics

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Suggestions

## Section 1

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# Indian Textile Industry – Some Characteristics



# Very Highly Leveraged ...

## Representative\* Debt Equity Ratios



Textiles

2.33



Food Processing

1.94



Engineering

1.65



Auto Ancillaries

0.98

\* Calculated for leading 20 companies for each sector

Source: Company Reports, Secondary Research, Technopak Analysis

# Leading To Punishment By Investors ...

## Comparison of Market-to-Book Value Ratio



Engineering

2.09



Auto Ancillaries

1.58



Food Processing

1.03



Textiles

0.65

\* Calculated for leading 20 companies for each sector

Source: Company Reports, Secondary Research, Technopak Analysis

# High Interest Payments Leading To Less Resources For Value Addition Investments ...

Out of the top\* 20 textile companies 7 companies pay more than 50% of PBIT as interest

Company	Revenue (Rs Crore)	Interest Coverage Ratio
A	>5000	1.89
B	>2000	1.75
C	>2000	1.33
D	>2000	1.77
E	>1000	1.71
F	>1000	1.49
G	>1000	1.01

*\*By revenue 2010 - 11*

*Source: Company Reports, Technopak Analysis*

# Negatively Impacting Fund Generating Ability

- Banks are tightening lending criteria for the sector

Total exposure of banks to  
textile industry: Rs 2,50,000  
Crores

~75% of the exposure is in  
cotton spinning sector

- Refinancing risks are increasing for the sector

Loan restructuring proposals  
facing resistance from Ministry  
of Finance and RBI

Working capital funding  
management becoming more  
difficult

Source: Secondary Research, Technopak Analysis



## Leading To ...

- Far more focus from promoters and top managers on managing:
  - Raw material purchases
  - Banks and other lenders
  - Stock market investor community

## And ...

- Far less focus from promoters and top managers on managing:
  - Business efficiency (not only select machinery efficiency)
  - Rationalization and optimization of product mix
  - Business innovation (not only product development)
  - Governance

## And ...

- Far less focus from promoters and top managers on managing:
  - Human resource development
  - Business level branding and marketing (besides product branding and marketing)
  - Innovative deployment of technology for business itself (not only in production)

## Section 2

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# Suggestions



# Intellectual Capital Has To Be Deployed Across Different Business Functions In A Sustained Manner



# 1: Human Resource Augmentation & Development

- Focus areas:
  - Augmentation:
    - Caliber (intellectual, emotional, social)
    - Diversity (academic background, experience & exposure, gender)
  - Development:
    - Exposure
    - Training
    - Performance measurement

# 2: Product Innovation

- Focus areas:
  - Market intelligence acquisition, assimilation, and interpretation
    - Industry trends
    - Consumption trends
    - Technology trends
    - Competition trends
  - New application areas (across industries) e.g.
    - Engineered yarns and fabrics for non-apparel applications and in fast growing industries e.g. automotive, construction and home decoration, floor coverings, healthcare, agriculture etc.
    - Innovative yarns and fabrics for high-performance apparel (and footwear) applications e.g. defense, sports

# 3: Branding & Marketing

- Focus areas:
  - Branding
    - Corporate image (to make it aspirational for prospective employees, customers, suppliers, lenders, investors, and others)
  - Marketing
    - Industry specific distribution and marketing networks
    - Industry / customer profile specific marketing teams



# 4: Distribution & Retail

- Focus areas:
  - Efficiency in distribution (and efficient deployment of technology)
  - Quick response
  - Cost effectiveness
- Where product is being marketed to end consumer, then:
  - Development / redevelopment of appropriate retail channel
  - Effective deployment of new-age tools (social media, e-commerce)

# 5: Information Technology ..

- Focus areas:
  - Think beyond ERP and beyond production-related performance monitoring
  - State-of-the-art IT deployment across multiple areas including:
    - Internal information collection and dissemination
    - Linkages within the supply chain (raw material – other vendors - customer)
    - Analytics & business intelligence

# And ...

- Good governance:
  - Corporate
  - Society
- Good boards:
  - Statutory
  - Advisory

# Conclusions ...



# Conclusions ...

- Textile industrialists should refrain from becoming mere speculators (raw material futures and currency futures) and instead, go back to being “entrepreneurs” and “innovators”
- Excessive leveraging is rapidly becoming a bane of many industries and industrialists in India – largely an outcome of relatively easy availability of capital in the last 10 years, and unbridled ambitions
- While making efforts to deleverage financially, make some firm investments in acquiring / augmenting “intellectual capital” across all facets of business, and then monitor effective deployment of this capital in a holistic manner

Thank You  
Very Much !

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